NPA MANAGEMENT IN SCHEDULED URBAN CO-OPERATIVE BANKS: A CASE STUDY

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Introduction

In the recent burning trends of monetary and fiscal policies of the Indian banking economy, the co-operative sector having vital significance in the national growth of economic development in India. Co-operative sector having its remarkable status in the various areas such as - social, agricultural and non-agricultural areas. It has its own universal significance in the different areas of economic activities such as credit and financing. The prime base of cooperative society is in co-operative credit society, salary earner's society and co-operative banks. Actually, the concept of co-operation in rural and urban sector, which helps to the downtrodden people of rural area. Hence, Government has passed Special Co-operative Societies Act for enhancing the co-operative movement in India.

The co-operative credit societies were creating a special role in the rural as well as urban areas of the country. In practice, the nature and working of cooperative societies and co-operative Banks is different such as agricultural activities and non-agricultural activities, handicrafts, agro-based industries etc. With the passage of time, the development of process of co-operative movement in co-operative banking entered in to urban areas as economic development. Government, particularly Reserve Bank of India provided special legal considerations for the organisation of urban banking in the co-operative sector. So, the urban co-operative banks are particularly organised for the development of weaker section of the society.

The Reserve Bank of India, is giving permission for the formation of Scheduled Urban Co-operative Banks with some specific directions and segments. Urban Co-operative Bank's organisation, structure, management, working etc. are controlled by Reserve Bank of India and Co-operative Societies Act. It means that there is a duality of control.

Research Design and Problems

The research design is exploratory till identification of service quality parameters. Research design is the structure and strategy of investigation conducted so as to obtained the reply to research problems. Research design is purely a framework or a plan for study that guides in the collection of the data. Descriptive research design is applied for analysis and interpretation of statistical data. In a wider sense, with the tremendous growth, development, and changing the banking environment of today. The survival of a banking management and organisation depends on the level of income generated through optimum use of assets.

The prime problem of Scheduled Urban Co-operative Banks is bad debts termed as **'Non Performing Assets (NPA)'**. Scheduled Urban Co-operative Banks are facing the major problems such as internal control of management, enhancing the efficiency of officials, increasing deposits, loans and advances, recovery of loans, over dues etc. In spite the these problems, others are- (i) application of laws and procedures, (ii) Political inference, (iii) Flow of funds, (iv) Corruptions at a various levels, (v) Cut-throat competition in banking era.

India's Urban Co-operative Banking Sector constitutes approximately seven percent of the banking sector's total assets. In spite of this, Urban Cooperative Banks are largely concentrated in Maharashtra, Gujarat, Tamil Nadu and Andhra Pradesh.

Non-Performing Assets (NPA) are one of the major concerns for Indian banking. NPA reflects the performance of the Scheduled Urban Co-operative Banks. NPA is the biggest challenge for these Scheduled Urban Co-operative Banks in India. NPA is adversely affecting not only the financial performance of the banking sector but also the Indian Economy.

Objectives of the Research Study

The prime objectives of research study are:

a) To study the concept of NPA in banking sector.

b) To analyse the management of NPA in these Scheduled Urban Cooperative Banks.

c) To examine the effectiveness of regulatory form work for recovery of debts of the Scheduled Urban Co-operative Banks.

Hence, the NPA growth involves the necessity of provisions, which reduces the over all profits and shareholder's goodwill.

Review of Research and Development in the Subject

Scheduled Urban Co-operative Banking sector having a remarkable status in the social, economical and political sciences. Scheduled Urban Cooperative Banking interdisciplinary relevance related with the commercial and private baking is very sound and standard. Scheduled Urban Co-operative Banks are having vital role in the foreign exchange era.

Narsimhan Committee on the financial system was appointed in 1991, to verify the all aspects of structure, organisation, functions and procedure of financial and banking system and suggested certain measures to improve its efficiency and effectiveness. A committee under the guidance of **Marathe, S.S.** was appointed by Reserve Bank of India in 1992, to

study the licensing policy of new Urban Co-operative Banks. Near about 1,400 Urban Co-operative Banks were efficiently working in India. Out of these, 387 Urban Co-operative Banks were in Maharashtra State. On account of scientific and efficient banking, the Reserve Bank of India made to quality and elevate 14 ‘Schedule Banks’ out of which 11 were located in Maharashtra during the period of 1992. It’s a remarkable growth in Maharashtra only.

The development of Scheduled Urban Co-operative Banks is extremely uneven in various states of our country. It is much more faster in Maharashtra, Gujarat and some other States of India. As on 2017, there were 1584 number of Urban Co-operative Banks and Scheduled Banks are 64 and Non-Scheduled
Banks are 1520. About 79% percent of these are located in 5 States i.e. Maharashtra, Gujarat, Andhra Pradesh, Tamil Nadu and Karnataka. A **‘Schedule Bank’** is one, which was included in the second schedule of Banking Regulation Act, 1949.

Most of the Scheduled Urban Co-operative Banks are centred in Marathwada State, which constitutes the area of the research project. With a view, considering the overall analytical study of Human Resource Management in Scheduled Urban Co-operative Banks, it is proposed to evaluate the working performance of Human Resource Management in Scheduled Urban Cooperative Banks in Maharashtra State.

The economic-liberalization era of Scheduled Urban Co-operative Banks witnessed phenomenal growth and development of Indian economy. Scheduled Urban Co-operative banks are the hub of the financial system in India and heart core of the Indian Banking economy as well.Scheduled Urban Co-operative Bank system has very long history evolving many years passing through different phases after Independence. In the era of

economic liberalization, these banking systems has undergone many noteworthy transformations such as adoption of best national and international practices in regulating and supervising Indian money market. Scheduled Urban Co-operative Banking Industry is an indispensable financial service sector which supporting development plans through channelizing funds for productive and profitability purposes. They are enhancing economic and financial policies of the Government.

In India, there are 54 Scheduled Urban Co-operative Banks, out of which 41 are in the Maharashtra state. Researcher has selected 12.19% i.e. 5 Scheduled Urban Co-operative Banks through Random Sampling method for research study. The period of evaluation is 10 Years of 5 Scheduled Urban Co-operative Banks in Maharashtra state. The following Scheduled Urban Co-operative Banks are selected from Maharashtra state for the research study:

1. Abhyudaya Co-operative Bank Ltd., Mumbai.
2. Cosmos Co-operative Bank Ltd., Pune.
3. Janta Sahakari Bank Ltd., Pune.
4. Sangli Urban Co-operative Bank Ltd., Sangli.
5. Saraswat Co-operative Bank Ltd., Mumbai.

Above said banks are selected on the basis of following reasons:

1. Basically, these Scheduled Urban Co-operative Banks are established in the 20th Century having remarkable healthy growth and development in the Indian Banking industry.

2. Maintaining the NPA not more than 5% and their standards as well.

3. Providing the prompt services to the customers and enhancing cordial and healthy relations with customers, bankers and official staff.

4. Advancing the loans and advances to customers of the urban and rural areas of the Maharashtra state.

5. Promoting economic growth and development of weaker sections of the society and downtrodden people of rural and urban areas of Maharashtra state.

6. Possessing profitability, productivity and quality of assets in the banking era.

7. Arranging frequent interactions and meeting with the borrowers for creating better understanding and mutual trust.

Concept of NPA

Economic development of a nation is mainly depending upon sound and efficient financial policies and scientific systems. Banks are the blood veins of Indian economy. In a developing country like India, the Scheduled Urban Cooperative Banks are playing a very significant role for the growth of economic development.

NPA is a vital parameter to judge the performance and final health of Scheduled Urban Co-operative Banks. Non-Performing Assets are one of the major concerns for Scheduled Urban Co-operative Banks. Because, NPA reflects the performance of Scheduled Urban Co-operative Banks. Higher the rate of NPA enhance the larger number of credit defaults which affects the profitability, productivity of the Scheduled Urban Co-

operative Banks. It also damages the value of assets and also goodwill of the banks.

NPA is also known as **'Non-Performing Loan'**. An asset becomes nonperforming when the borrower is unable to pay either interest or principle or both for a period of 90 days.

Non-Performing Assets (NPA): Meaning

The health as well as the financial condition of a bank is measured through the proportion of bad assets or Non-Performing Assets with it. NPA is a prime hurdle of its faster growth of the Scheduled Urban Co-operative Banks. The NPA is defined as follows:

1. "Any asset which stops giving returns to investors for a specified period of time is known as Non Performing Asset."
2. NPA is defined as, "a credit facility in respect of which interest and instalment of principle has remained **'past due'** for a specified period of time."
3. "Non-Performing Assets are also called Non-Performing Loans. It is used by financial institutions which refers to make interest or principle payments for 90 days the loan is considered."
4. "The interest and/or instalment of principle remain overdue for a period of more than 91 days in respect of a term loan."
5. NPA means "any amount to be received remains overdue for a period of more than 90 days in respect of other accounts."
6. NPA means "Non-submission of stock statement for 3 continuous quarters in case of cash credit facility."
7. NPA means "No active transactions in the account i.e. cash credit, overdrafts, EPC, PCFC for more than 91 days."

8. An asset becomes non-performing when the borrower is not able to pay either interest or principle or both for a period for 90 days.

With a view of international practices and greater degree of transparency, RBI is to follow global practices and high degree of transparency. RBI prepared certain norms, which made applicable for 90 days overdue for identification of NPA.

Methods of NPA

NPAs are generally considered in a following manner. Ssuch as:

1. Overdraft and Cash Credit (OD/CC) accounts remains out of orders.
2. Bill overdue for more than 90 days for bills purchased and discounted.
3. Expected payment is overdue for more than 90 days in respect of other accounts.
4. No activity in the cash credit, Overdraft, EPC or PCFC account for more than 91 days.
5. Non-submission of stock statements for 3 consecutive quarters in case of cash-credit facility.
6. Agricultural advances whose interest or principle instalment payments remain overdue for two crop/harvest seasons for short duration crops or overdue one crop season for long duration crops.

Types of Assets

Assets of a bank are classified in terms of its repayment status. As per the norms of RBI, the following are the certain types of assets of banks namely- (a) Standard Assets, (b) Sub-Standards Assets, (c) Doubtful Assets, (d) Loss Assets.

(a) Standard Assets:

- Assets, which are generating regular income to the bank.
- An asset in which there is no chance of default and which carry only normal risk attached to the bank is known as 'Standard Assets'.
- These assets are not considered as Non-Performing Assets, provision for Standard Asset is made at 0.25% of all types of Standard Assets.
- Standard Assets is one, which is not disclose any problems. Such an Asset should not be on NPA.

(b) Sub-Standards Assets

- It is one, which has been classified as NPA for a period not exceeding 12 months.
- If an asset remains non-performing for a term upto 12 months is considered a Sub-Standard Assets. Provision for Sub-Standard Assets is made at 10% of all type of Standard Assets.
- An asset, which is overdue for a period of 90 days but leas than 12 months.

(c) Doubtful Assets

- An asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months.
- An asset which is overdue for a period of more than 12 months.
  - A provision for this assets are made differently-

    (a) For a term upto one year, provision for a term up to one year is 100% of non-secured advances.

    (b) For a term more than one year but less than 3 years, provision is made of 100% of unsecured advances and 30% of secured advances.

(c) For the term 3 years or more, provision is made 100% of both unsecured and secured advances.

(d) Loss Assets

- Assets which are doubtful and considered as non-recoverable by banks, or external auditor or bank inspectors.
- As per RBI Loss Asset is considered as uncollectible and of such little value that is continuance as bankable.
- It is a type of asset in which an asset remains non-performing for a term more than 3 years. In this matter, the provision is made 100% of unsecured and secured advances.
- Loss Assets should be written off. If loss assets are permitted to remain in the books for any reason, Sub-Standard Assets, Doubtful Assets and Loss Assets are known as NPA.

Impact of Non-Performing Assets on Banks

There is a serious impact of NPA on Indian banking and also on Scheduled Co-operative Urban Banks as well. The following are the factors which affects the financial performance of the banks due to heavy increase in NPA, such as-

1. Bad effect on goodwill of the bank.
2. Drain of Profit: Higher interest rate of the banks of maintains the profit.
3. Stress in banking sector causes the negative impact on the larger national economy.
4. Restriction on cash flow by the banks due to provisions of fund made against NPA.
5. Bad effect on equity value.
6. Investors do not get rightful returns.

7. Balance sheet syndrome of Indian characteristics of banks and corporate sector, social behaviour system of the banks creates typical of an illness of banks health.
8. Already NPA pending cases with the judiciary affects the profitability of the banks.

Significance of the Study

Scheduled Urban Co-operative Banking organisation is set up mainly with certain banking objectives. Scheduled Urban Co-operative Banks are playing pivotal role in fulfilling their objectives for development of the rural and urban backwards community and downtrodden.

Scheduled Urban Co-operative Banks are the barometers of Indian economy. Bankers and society point of view, the research study having a milestone in the development of a nation. The study focuses on examining the productivity, viability and profitability of Scheduled Urban Co-operative Banks not only in the particular region or city but also in rural and urbanised banking era. It helps to the banker and urbanised banking era. It helps to the banker by way of comparing and analysing the performance, profitability, efficiency and productivity of Scheduled Urban Co-operative Banks in India.

Overall, the significance of the study is fruitful to the society as a whole. Particularly to the employees, customers, investors and shareholders etc. It also giving due attention towards the changes in the life style of downtrodden people of the society. Scheduled Urban Co-operative Banking activities did not remain limited to the rural area but also in urbanised backward and weaker sections of the society. It is also identifying the determinants of financial performance to understand

financial as well as profitable capability and effectiveness of Scheduled Urban Co-operative Banks in the national economy.

The significance of the research study is to examine development and performance of Scheduled Urban Co-operative Banks in rural and urban area. Now-a-days, Scheduled Urban Co-operative Banks are in the news for their malpractice, fraud and collapses their banking services and contribution to the economy. The significance of the study is to solve the problems such as eroding public's confidence, corruptions, un-viability, posing unsystematic progress, bankruptcy, etc. To detect these loopholes, it is essential to study the monetary and fiscal policies of the Scheduled Urban Co-operative Banks.

Objectives of the Study

The present study will be the analytical and financial aspect of NPA in Scheduled Urban Co-operative Banks in the specific objects of Urban Credit in Maharashtra State.

1. To study the concept of NPA in the Scheduled Urban Co-operative Banking Sector.
2. To study the status of Non-Performing Assets of Scheduled Urban Cooperative Banks.
3. To study the impact of Non-Performing Assets on Scheduled Urban Cooperative Banks.
4. To know the Scheduled Urban Co-operative Bank's recovery of NonPerforming Assets through various channels.
5. To identify the problems faced by Scheduled Urban Co-operative Banks and suggestions thereon.

Hypotheses

The following hypotheses have been set for the present study.

1. Scheduled Urban Co-operative Banks are adopting procedures, rules, and regulations as regards to Non-Performing Assets laid down by Reserve Bank of India.
2. The study Scheduled Urban Co-operative Banks are followed the applicable standards and Reserve Bank of India's Policy related to NPA, working and financing of loans and advances, deposits, over dues working capital.

Research Methodology

Research Methodology is a scientific and systematic procedure to solve the research problems. The objectives are achieved by studying all Scheduled Urban Co-operative Bank's Non-Performing Assets with comparison of Indian banking. The study refers to the over all Scheduled Urban Co-operative Banks Movement in India. Research study is based on sampling, personal interviews, survey, questionnaire and secondary data also.

Nature of the Study

This is an empirical study in which Researcher will use the survey, direct personal interviews, and observation methods for data collection. The Researcher will use the tracer methodology for analysis and ascertainment of the performance of Scheduled Urban Co-operative Banks.

Research Methodology consists of-

1. Primary Data
2. Secondary Data
3. Opinion Survey
4. Statistical Methods
5. Selection of Sample

Primary Data

The Primary Data are original data, which are collected for the first time for specific purpose. Researcher is collecting data by means of certain methods viz. Personal Interviews, Survey and Schedules etc.

Secondary Data

The Secondary Data were of those which have already been collected by some other agency and which are already processed. Secondary Data may be available in the form of published or unpublished sources. Researcher will collect the data by means of the related sources such as Text Books, Articles, Published Papers, Journals, Periodicals, Published Statistical Review Statement and Web Portals.

Scope of the Study

The research study has the particular scope such as:

1. The study will suggest measures for the banks to avoid future NPAs and reduce existing NPAs.
2. The study may help the Government in creating the implementing new strategies to control NPAs with a view to amend provisions in Laws and Act.
3. The study will help to select appropriate techniques suited to manage the NPAs.
4. The study will develop a time bond action-oriented plan to check the growth of NPAs.
5. The study will tackle the problem of NPAs, which reflects the performances of management and liquidity, productivity and profitability of Scheduled Urban Co-operative Banks.
6. Finally, the study will suggest and enhance the high level of NPAs of the Scheduled Urban Co-operative Banks, which reflects the state of health of banking industry and trade.

Limitations of the Study

Limitation of the research study are as follows:

1. The study of NPAs is limited to Scheduled Urban Co-operative Banks in Maharashtra State only.
2. The study of NPAs is limited to Scheduled Urban Co-operative Banks as compared with Indian banks.
3. The basis for identification of NPAs is considered from RBI and web publications.
4. With the passage of time, the variations in NPAs are continuously changed. So, the study is concerned with the present environment as well.

Chapter Plan

1. Chapter-I : Introduction
2. Chapter-II : Review of Literature and Research Methodology
3. Chapter-III : NPA in Scheduled Urban Co-operative Banks
4. Chapter-IV : Data Analysis and Interpretation
5. Chapter-V : Conclusions and Suggestions

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Appendices

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